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5x5 series: Insights and actions

Pillar Two considerations for the C-suite

The OECD has introduced Pillar Two—an unprecedented approach to addressing perceived base erosion and profit shifting, representing one of the biggest shifts in international taxation in decades. GloBE Rules are intended to ensure that multinational entities with annual revenue of €750 million or more pay a minimum 15% tax in every jurisdiction where the effective tax rate (ETR) is less than 15%. The effective date of Pillar Two rules implementation is January 1, 2024, in varying jurisdictions, and even if top-up taxes are not expected to be material, compliance will add significant time and effort.

5 insights you should know

1. Rules are constantly evolving, with the OECD issuing administrative guidance where clarity is needed and individual jurisdictions drafting and enacting different laws based on the Pillar Two framework.
2. There is potential for increases in cash taxes paid and ETR as well as changes to tax compliance.
3. Pillar Two is relevant for multiple stakeholders within organizations (finance, tax and regulatory, accounting and reporting, data and technology). Readiness of tax departments and financial reporting for Q1 2024 is critical.
4. Appropriate people, processes, and control environment are needed to understand underlying accounting conclusions, to calculate taxes, and to provide support for external auditors.
5. There are potentially pervasive and evolving impacts on internal and external stakeholders.

5 actions to take now

1. Scope of Pillar Two: Understand whether your entity will be in the scope, based on your current footprint and planned transactions.
2. People and processes: Cross-functional involvement of finance and accounting, tax, IT, and others will be critical to ensure readiness and compliance.
3. Technology and data: Businesses must compile volumes of new data for Pillar Two compliance to ensure availability, reliability, and integration of key data.
4. Tax planning and accounting implications: Accounting policies and processes drive tax outcomes; therefore, the Pillar Two compliance requirements and aligning tax planning with the accounting framework should be thoughtful considerations.
5. Stakeholder communication: Companies need to manage internal and external stakeholder communication regarding future Pillar Two impacts.

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